

The Spending Outlook

The Congressional Budget Office estimates that if current laws governing mandatory programs remain the same and discretionary appropriations total \$840 billion, the amount provided thus far for 2005, outlays this year will rise by \$133 billion to \$2.4 trillion—a 5.8 percent increase over their level in 2004 (see Tables 3-1 and 3-2). However, no funding has yet been provided this year for activities in Iraq and Afghanistan. Such funding—when provided—is likely to add about \$30 billion to outlays this year, raising growth in total outlays in 2005 to 7.1 percent, higher than the 6.1 percent growth experienced from 2003 to 2004.

Total spending as a percentage of gross domestic product dropped slightly between 2003 and 2004, from 19.9 percent to 19.8 percent. Under baseline projections, CBO estimates that outlays will remain at that level of GDP in 2005; once additional funding is provided for operations in Iraq and Afghanistan, that figure is likely to rise to at least 20.1 percent.

Fueling the growth in outlays projected for 2005 is continued expansion of both mandatory and discretionary spending (a significant portion of which stems from budget authority granted before 2005). In addition, CBO estimates that net interest payments will increase by 10.8 percent in 2005, the result of rising interest rates and accumulating federal debt. Outlays for mandatory programs—which account for more than half of all federal spending—are expected to grow by \$80 billion (6.5 percent) over their level in 2004. In the absence of further appropriations, outlays for discretionary defense activities are projected to climb by \$10 billion, or 2.2 percent, in 2005. Once operations in Iraq and Afghanistan are fully funded, that rate of increase will most likely grow to about 8.9 percent. For nondefense discretionary programs, outlays are expected to increase by \$25 billion (5.8 percent). (See Box 3-1 on page 54 for descriptions of the various types of federal spending.)

The mix of federal spending has changed significantly over the past several decades. Today the government spends less—as a percentage of GDP—on discretionary activities and more on mandatory programs. Discretionary spending declined from 12.7 percent of GDP in 1962 to 6.3 percent in 1999 and 2000 before rebounding to 7.7 percent in 2004 (see Figure 3-1 on page 55). By contrast, mandatory spending—net of offsetting receipts—has climbed from 4.9 percent of GDP to 10.7 percent over the same period. Net interest has remained between 1.2 percent and 3.3 percent of GDP since 1962. In 2005, the share of the economy represented by each of the three major spending categories is expected to remain close to the share recorded in 2004. (For detailed annual data on spending since 1962, see Appendix F.)

Outlays in CBO's baseline are projected to grow at an average annual rate of 4.3 percent over the next 10 years—declining to 18.7 percent of GDP in 2012, before climbing to 18.9 percent of GDP in 2015 as mandatory spending accelerates. If current policies remain unchanged, mandatory outlays, led by growth in Medicare and Medicaid, will grow by about 5.7 percent. At that rate, those outlays will claim 11.7 percent of GDP by 2015—a percentage point above their share in 2004. CBO projects that interest payments as a share of GDP will increase to 1.9 percent by 2008 as a result of continuing deficits and the rising interest rates discussed in CBO's economic forecast (see Chapter 2 for details of CBO's economic outlook). That percentage will fall slightly toward the end of the 10-year projection period, to 1.5 percent of GDP, as the baseline assumptions of restrained growth in discretionary outlays and the scheduled rise in taxes under current law lead to diminished borrowing needs.

After 2005, under assumptions required by law for the baseline, discretionary outlays are projected to grow at an average annual rate of 1.7 percent and to gradually de-

Table 3-1.**CBO's Projections of Spending Under Baseline Assumptions**

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006- 2010	Total, 2006- 2015
In Billions of Dollars														
Outlays														
Discretionary spending														
Defense	454	464	438	435	447	457	468	484	488	504	516	529	2,245	4,765
Nondefense	441	466	476	485	493	502	511	523	534	546	559	572	2,468	5,202
Subtotal	895	930	914	919	940	959	980	1,006	1,022	1,050	1,075	1,101	4,713	9,966
Mandatory spending														
Social Security	492	517	540	564	592	623	659	697	739	785	835	888	2,978	6,922
Medicare	297	325	380	426	453	484	520	565	598	654	708	766	2,263	5,554
Medicaid	176	186	193	205	223	241	262	284	307	333	361	392	1,124	2,802
Other spending	381	412	408	413	428	440	451	470	454	473	487	500	2,140	4,523
Offsetting receipts	-109	-122	-140	-159	-167	-168	-179	-191	-203	-217	-231	-244	-813	-1,899
Subtotal	1,237	1,317	1,380	1,450	1,529	1,620	1,713	1,824	1,896	2,028	2,159	2,303	7,692	17,902
Net interest	160	178	213	249	274	289	303	311	314	311	308	303	1,328	2,875
Total	2,292	2,425	2,507	2,618	2,743	2,869	2,996	3,142	3,232	3,389	3,542	3,706	13,733	30,743
On-budget	1,913	2,024	2,092	2,190	2,300	2,409	2,517	2,644	2,711	2,841	2,965	3,097	11,508	25,766
Off-budget	380	401	415	428	443	460	479	497	521	548	577	609	2,225	4,977
As a Percentage of GDP														
Outlays														
Discretionary spending														
Defense	3.9	3.8	3.4	3.2	3.1	3.0	3.0	2.9	2.8	2.8	2.7	2.7	3.1	2.9
Nondefense	3.8	3.8	3.7	3.6	3.4	3.3	3.2	3.2	3.1	3.0	3.0	2.9	3.4	3.2
Subtotal	7.7	7.6	7.1	6.8	6.6	6.4	6.2	6.1	5.9	5.8	5.7	5.6	6.6	6.2
Mandatory spending														
Social Security	4.3	4.2	4.2	4.2	4.1	4.1	4.2	4.2	4.3	4.4	4.4	4.5	4.2	4.3
Medicare	2.6	2.7	2.9	3.1	3.2	3.2	3.3	3.4	3.5	3.6	3.8	3.9	3.2	3.4
Medicaid	1.5	1.5	1.5	1.5	1.6	1.6	1.7	1.7	1.8	1.8	1.9	2.0	1.6	1.7
Other spending	3.3	3.4	3.2	3.0	3.0	2.9	2.9	2.8	2.6	2.6	2.6	2.5	3.0	2.8
Offsetting receipts	-0.9	-1.0	-1.1	-1.2	-1.2	-1.1	-1.1	-1.2	-1.2	-1.2	-1.2	-1.2	-1.1	-1.2
Subtotal	10.7	10.8	10.7	10.7	10.7	10.8	10.9	11.1	11.0	11.3	11.5	11.7	10.7	11.1
Net interest	1.4	1.5	1.7	1.8	1.9	1.9	1.9	1.9	1.8	1.7	1.6	1.5	1.9	1.8
Total	19.8	19.8	19.5	19.3	19.2	19.1	19.0	19.0	18.7	18.8	18.8	18.9	19.2	19.0
On-budget	16.6	16.5	16.2	16.1	16.1	16.0	16.0	16.0	15.7	15.8	15.8	15.8	16.1	15.9
Off-budget	3.3	3.3	3.2	3.2	3.1	3.1	3.0	3.0	3.0	3.0	3.1	3.1	3.1	3.1
Memorandum:														
Gross Domestic Product (Billions of dollars)	11,553	12,233	12,888	13,586	14,307	15,029	15,757	16,494	17,245	18,023	18,826	19,652	71,566	161,806

Source: Congressional Budget Office.

Table 3-2.**Average Annual Rates of Growth in Outlays Under CBO's Baseline**

(Percent)

	Actual 1993-2003	Actual 2003-2004	Estimated ^a 2004-2005	Projected ^b 2005-2015
Discretionary	4.3	8.4	4.0	1.7
Defense	3.3	12.1	2.2	1.3
Nondefense	5.5	4.9	5.8	2.1
Mandatory	5.8	4.7	6.5	5.7
Social Security	4.5	4.5	5.1	5.6
Medicare	6.7	8.5	9.3	9.0
Medicaid	7.8	9.7	5.3	7.8
Other ^c	6.3	-1.6	6.7	-1.2
Net Interest	-2.6	4.7	10.8	5.5
Total Outlays	4.4	6.1	5.8	4.3
Total Outlays Excluding Net Interest	5.2	6.2	5.4	4.2
Memorandum:				
Consumer Price Index	2.5	2.3	2.8	2.2
Nominal GDP	5.1	6.6	5.9	4.9
Discretionary Budget Authority	5.3	6.7	-7.3	2.4
Defense	5.1	6.7	-13.3	2.4
Nondefense	5.4	6.6	-0.3	2.3

Source: Congressional Budget Office.

- a. CBO's baseline does not include estimates of future funding for operations in Iraq, Afghanistan, and the global war on terrorism (which have previously been funded through supplemental appropriations). As a result, budget authority provided thus far in 2005 for both defense and nondefense discretionary programs is lower than the amount provided in 2004. Excluding all supplemental appropriations (including those for disaster relief) in both years, total budget authority has grown by 5.1 percent in 2005 (6.6 percent for defense programs and 3.5 percent for nondefense programs).
- b. As specified by the Deficit Control Act, CBO's baseline uses the employment cost index for wages and salaries to inflate discretionary spending related to federal personnel and the GDP deflator to adjust other discretionary funding.
- c. Includes offsetting receipts.

cline as a share of GDP. That rate of growth is relatively low because 2005 outlays include some spending for operations in Iraq and Afghanistan that resulted from previous years' appropriations, but the years toward the end of the projection period do not include any such spending. Discretionary spending's share of the economy is projected to fall to 5.6 percent of GDP in 2015—about 2 percentage points below the current level.

Mandatory Spending

Mandatory spending—also known as direct spending—has continued to grow as a share of federal outlays. Cur-

rently, such spending (net of offsetting receipts) stands at just over half of all federal spending. Most of the spending in this category involves payments to individuals and other entities, such as businesses, nonprofit institutions, and state and local governments. In general, those payments are governed by criteria set in law and are not normally constrained by the annual appropriation process. Offsetting receipts (certain payments that federal agencies receive from other governmental agencies or from the public) are classified as offsets to mandatory spending.

By 2015, direct spending is projected to constitute more than twice the share of federal outlays that it represented

Box 3-1.**Categories of Federal Spending**

On the basis of its treatment in the budget process, federal spending can be divided into three broad categories:

Mandatory spending consists primarily of benefit programs such as Social Security, Medicare, and Medicaid. The Congress generally determines spending for those programs by setting rules for eligibility, benefit formulas, and other parameters rather than by appropriating specific dollar amounts each year. The Congressional Budget Office's (CBO's) baseline projections of mandatory spending assume that existing laws and policies will remain unchanged and that most expiring programs will be extended. Mandatory spending also includes offsetting receipts—fees and other charges that are recorded as negative budget authority and outlays. Offsetting receipts differ from revenues in that revenues are collected as an exercise of the government's sovereign powers, whereas offsetting receipts are generally collected from other government accounts or paid by the public for business transactions (such as rent payments and royalties from leases for oil and gas drilling on the Outer Continental Shelf).

Discretionary spending is controlled by annual appropriation acts; policymakers decide each year how many dollars to devote and to which activities. Appropriations fund a wide variety of governmental activity, including defense, transportation, national parks, law enforcement, disaster relief, and foreign aid. Certain fees and other charges that are triggered by appropriation action are classified as offsetting

collections, which offset discretionary spending. CBO's baseline depicts the path of discretionary spending in accordance with provisions of the Balanced Budget and Emergency Deficit Control Act of 1985, which state that current spending should be assumed to grow with inflation in the future.¹ CBO estimates that appropriations provided to date total \$840 billion for 2005—\$421 billion for defense and \$419 billion for nondefense activities. In addition, the baseline includes about \$45 billion in obligation limitations that control spending from the Highway Trust Fund and the Airport and Airway Trust Fund. Such spending is classified as discretionary, although the budget authority for such programs is provided in authorizing legislation and is considered mandatory.

Net interest includes interest paid on Treasury securities and other interest that the government pays (for example, on late refunds issued by the Internal Revenue Service) minus interest that the government collects from various sources (such as from commercial banks, where Treasury tax and loan accounts are maintained). Net interest is determined by the size and composition of the government's debt, annual budget deficits or surpluses, and market interest rates.

1. The inflation rates used in CBO's baseline, as specified by the Deficit Control Act, are the employment cost index for wages and salaries (applied to expenditures related to federal personnel) and the GDP deflator (for other expenditures).

in 1962. At that time, direct spending accounted for 26 percent of outlays; by 2015, CBO estimates that such spending will make up 62 percent of outlays. Expressed as a percentage of GDP, mandatory outlays are projected to rise from 10.7 percent in 2004 to 11.7 percent by 2015. The corresponding figure for 1962 was only 4.9 percent of GDP.

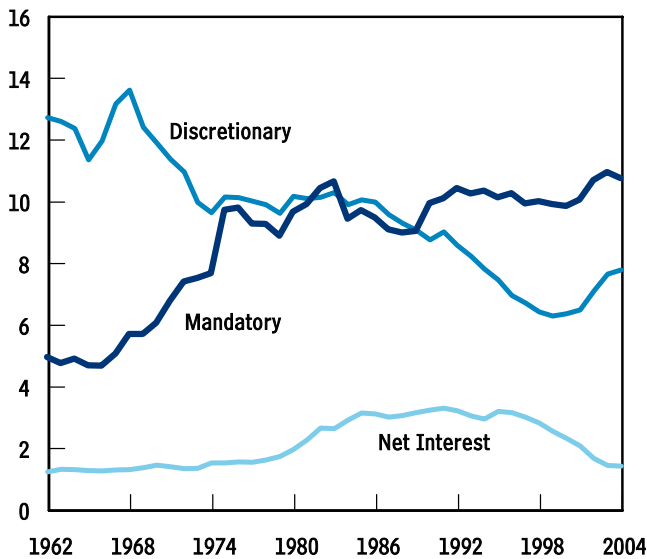
Driving the projected increase in mandatory spending are mounting costs for health care and income support for

the elderly, the disabled, and low-income populations. The largest of those programs—Social Security, Medicare, and Medicaid—accounted for 72 percent of mandatory spending in 2004 (excluding offsetting receipts). Buoyed by the rapidly rising costs of health care and an increase in the elderly population, that share will grow steadily over the next 10 years. Under CBO's baseline projections, those three programs will constitute 80 percent of all mandatory spending by 2015—an increase of about 7 percent each year.

Figure 3-1.

Major Components of Spending, 1962 to 2004

(Percentage of GDP)



Source: Congressional Budget Office based on data from the Office of Management and Budget.

Medicare and Medicaid

Significant federal resources are devoted to health care benefits for the nation's elderly, poor, and disabled. Combined, the Medicare program and the federal government's share of Medicaid currently approach Social Security in size. However, because Medicare and Medicaid will grow much more rapidly—by about 8.5 percent annually, compared with 5.6 percent for Social Security—they are projected to overtake that income-support program by next year. Their cost to the federal government will reach 130 percent of Social Security spending by 2015, CBO estimates (see Table 3-3).

Medicare. Spending for Medicare, the primary program that subsidizes medical care for the elderly and certain disabled individuals, is expected to grow rapidly over the next 10 years. The program is currently about 60 percent as large as Social Security (not including the effect of premium collections), but, by 2015, that proportion is projected to reach 86 percent. By then, spending for Medicare will total \$766 billion, CBO projects, or almost 4 percent of GDP.

Medicare currently comprises two main parts—Part A (Hospital Insurance) and Part B (Supplementary Medical Insurance). However, the program will undergo a major expansion of benefits in 2006 when it begins to pay for outpatient prescription drugs under the recently approved Part D.¹ Expenditures for Part D will total \$47 billion (not including income from premium payments and other offsetting receipts) in 2006, climbing to \$174 billion in 2015, CBO estimates.² By that time, Part D expenditures will make up 23 percent of spending for Medicare. Overall, spending for Medicare is expected to rise by 9 percent in 2005 and by a similar annual average through 2015. About 40 percent of the upswing in 2005 stems from automatic updates and legislated increases in payment rates for most types of care in the fee-for-service sector (including hospital care and services provided by physicians, home health agencies, and skilled nursing facilities). Those rates are subject to annual revisions based on changes in the prices of goods and services used by providers, as well as on changes in economic factors such as GDP and productivity. Growth in the number of beneficiaries also will account for an increasing share of the rising costs for Medicare, particularly as more baby boomers reach the age at which they qualify for benefits, beginning in 2011.

The projected acceleration of Medicare spending would be even more dramatic were it not for the formula used to establish a fee schedule for physicians' services—the sustainable growth rate (SGR) formula. That formula sets a cumulative spending target for physicians' services and other services related to physician visits (such as laboratory tests and physician-administered drugs). Left unaltered, the SGR formula ultimately recoups spending that exceeds the cumulative target by reducing payment rates for physicians' services or by holding increases below in-

1. Part C of Medicare specifies the rules under which certain private health care plans can assume responsibility, and get paid, for providing the benefits covered under Parts A, B, and D.
2. The transitional Part D program will expire when the outpatient prescription drug program is implemented in January 2006. Spending on the transitional program will total less than \$200 million in 2006; spending on the outpatient prescription drug program will total \$47 billion during the last three quarters of that fiscal year, CBO estimates.

Table 3-3.**CBO's Baseline Projections of Mandatory Spending**

(Billions of dollars)

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006- 2010	Total, 2006- 2015
Social Security	492	517	540	564	592	623	659	697	739	785	835	888	2,978	6,922
Medicare ^a	297	325	380	426	453	484	520	565	598	654	708	766	2,263	5,554
Medicaid	176	186	193	205	223	241	262	284	307	333	361	392	1,124	2,802
Income Security														
Unemployment compensation	43	33	35	38	41	42	45	47	49	51	54	56	200	457
Supplemental Security Income	34	39	37	35	40	42	43	49	42	48	50	52	198	439
Earned income and child tax credits	42	48	48	48	48	48	48	48	33	33	34	34	240	421
Food Stamps	29	32	32	32	32	33	33	34	35	36	37	38	162	342
Family support ^b	25	25	25	25	25	25	25	25	25	26	26	26	124	252
Child nutrition	12	13	13	14	14	15	16	16	17	18	18	19	71	159
Foster care	6	7	7	7	8	8	8	9	9	9	10	10	38	84
Subtotal	191	196	197	199	207	212	218	228	211	221	228	234	1,033	2,155
Other Retirement and Disability														
Federal civilian ^c	60	64	67	70	73	76	80	83	86	89	93	96	365	813
Military	37	39	41	43	44	46	47	49	50	51	52	53	221	476
Veterans ^d	31	35	34	32	34	35	35	38	34	37	38	38	170	355
Other	7	7	8	8	8	9	9	10	10	11	11	12	43	97
Subtotal	135	145	149	152	160	166	171	180	180	188	194	200	799	1,741
Other Programs														
Commodity Credit Corporation Fund	9	22	19	17	15	15	15	14	14	14	14	13	81	149
TRICARE For Life	5	6	7	7	8	8	9	10	10	11	12	13	39	96
Student loans	8	10	6	7	7	7	7	7	8	8	8	8	34	74
Universal Service Fund	3	6	7	7	7	7	7	7	8	8	8	8	35	73
State Children's Health Insurance	5	5	5	5	5	5	5	5	5	5	5	5	26	52
Social services	5	5	5	5	5	5	5	5	5	5	5	5	24	49
Other	20	17	13	14	14	14	14	13	13	12	12	13	69	133
Subtotal	55	71	62	61	61	62	62	63	64	63	65	65	308	627
Offsetting Receipts	-109	-122	-140	-159	-167	-168	-179	-191	-203	-217	-231	-244	-813	-1,899
Total Mandatory Spending	1,237	1,317	1,380	1,450	1,529	1,620	1,713	1,824	1,896	2,028	2,159	2,303	7,692	17,902
Memorandum:														
Mandatory Spending Excluding														
Offsetting Receipts	1,346	1,439	1,521	1,608	1,696	1,788	1,892	2,015	2,099	2,245	2,390	2,546	8,505	19,801

Source: Congressional Budget Office.

Note: Spending for the benefit programs shown above generally excludes administrative costs, which are discretionary.

a. Excludes offsetting receipts.

b. Includes Temporary Assistance for Needy Families and various programs that involve payments to states for child support enforcement and family support, child care entitlements, and research to benefit children.

c. Includes Civil Service, Foreign Service, Coast Guard, and other small retirement programs and annuitants' health benefits.

d. Includes veterans' compensation, pensions, and life insurance programs.

flation (as measured by the Medicare economic index).³ If spending falls short of the cumulative target, the SGR formula provides for increases in payment rates above inflation.

Application of the SGR formula resulted in a 5.4 percent reduction in payment rates in 2002 and would have resulted in a 4.4 percent reduction in 2003 if not for legislative intervention. In the Consolidated Appropriations Resolution for 2003 (Public Law 108-7), the Congress responded to that imminent reduction by allowing the Administration to boost the cumulative target—thereby producing a 1.6 percent increase in payment rates for physicians' services for 2003. Application of the SGR formula would have again resulted in reduced payment rates in 2004. However, in the Medicare Prescription Drug, Improvement, and Modernization Act (P.L. 108-173), the Congress specified that payment rates would increase by 1.5 percent in both 2004 and 2005. CBO estimates that spending subject to the SGR formula will exceed the cumulative target by about \$20 billion at the end of 2005. As a result, unless it is once again modified, the SGR formula will reduce payment rates for several years, beginning in 2006, and it will keep updates below inflation through at least 2015.

Medicaid. Federal outlays for Medicaid, the joint federal-state program that subsidizes the medical care of many of the nation's poor, totaled \$176 billion in 2004, making up about 13 percent of mandatory spending (not including offsetting receipts). In the past two years, Medicaid outlays grew at an annual rate of between 9 percent and 10 percent, reflecting continued increases in enrollment and payment rates, and increases in payments to hospitals that serve a disproportionate share of Medicaid beneficiaries or other low-income people. Some of the growth in 2004 was the result of an additional three fiscal quarters of increased federal matching rates established by the Jobs and Growth Tax Relief Reconciliation Act of 2003. Those enhancements boosted 2004 outlays by about \$6 billion. (Increased matching funds in 2003 accounted for

an estimated \$4 billion in spending in the last two quarters of that year.)

Growth in Medicaid outlays in 2005 will be slower than in the program's recent history, CBO estimates, in large part because the temporarily enhanced matching rates expired on June 30, 2004. Spending increases will remain lower through 2007 because the new Medicare drug benefit will replace Medicaid payments for individuals who are eligible for both programs.

Despite those temporary declines, Medicaid spending increases in later years are projected to return to historic levels as a result of rising prices, greater consumption of services, and, to a lesser extent, increased enrollment. After 2007, spending will increase by an average of 8.4 percent annually, CBO projects, rising to \$392 billion in 2015. Consequently, the federal government's Medicaid outlays are projected to reach 2.0 percent of GDP by 2015, compared with 1.5 percent in 2004.

Social Security

Social Security is currently the largest of all federal programs. Its two major components—Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI)—provided benefits of over \$487 billion to the elderly and the disabled in 2004. The number of people receiving benefits, already at more than 47 million, is expected to reach 60 million by 2015. Most Social Security beneficiaries also participate in Medicare. Because about 60 percent of people ages 62 to 64, and more than 90 percent of people age 65 and over, collect Social Security benefits, CBO ties its estimates of Social Security beneficiaries primarily to projections of the elderly population.

In the next 10 years and beyond, benefit payments for Social Security are expected to rise at increasingly rapid rates, starting with growth of 5.1 percent in 2005 and climbing to 6.4 percent by 2015.⁴ The program's rate of growth will accelerate in the latter half of the 10-year projection period. While both OASI and DI will continue to be affected by the aging of the nation's workforce, DI will realize more growth earlier because aging workers may become disabled before they qualify for OASI.

3. The Medicare economic index measures changes in the costs of physicians' time and operating expenses; it is a weighted sum of the price of inputs in those two categories. Most of the components of the index come from the Bureau of Labor Statistics. Changes in the costs of physicians' time are measured through changes in nonfarm labor costs. Changes in productivity are also factored directly into the index.

4. A discussion of long-term projections for Social Security is presented in Congressional Budget Office, *The Outlook for Social Security* (June 2004).

Old-Age and Survivors Insurance. About \$411 billion in OASI benefits were paid in 2004 to just under 40 million people. The OASI program pays benefits to workers who reach a defined age of retirement, to their eligible spouses and children, and to some survivors (primarily aged widows and young children) of deceased workers.

Over the past 10 years, outlays for OASI benefits increased at an annual rate of 4.1 percent. The OASI growth rate fell below that average in recent years, chiefly because of low inflation (cost-of-living adjustments—or COLAs—for Social Security benefits are based on inflation), but it is expected to increase considerably, reaching 6.7 percent by 2015.⁵ Although much of the projected growth is attributable to wage increases (which raise initial retirement benefits) and COLAs, growth in the number of people receiving OASI will become increasingly responsible for the surge in OASI spending over the next 10 years, particularly once the leading edge of the baby-boom generation begins to collect benefits in 2008.⁶ By 2015, CBO projects, nearly 50 million people will be receiving OASI benefits, 25 percent more than in 2004.

Disability Insurance. The Social Security program also provides Disability Insurance benefits to qualified workers who have suffered a serious medical impairment that restricts their ability to work before they reach retirement age. DI benefits are also paid to those workers' eligible spouses and children. In 2004, DI benefits totaled roughly \$76 billion or about 16 percent of spending for all Social Security benefits. Payments for DI benefits are expected to grow at a rapid clip this year (nearly 10 percent), moderating to around 6 percent in 2006. The marked growth in 2005 continues the rapid pace of recent years, which results partially from unusually large payments for retroactive claims. CBO projects slower growth in DI outlays in 2006, mainly because the backlog of pending cases is expected to shrink in 2005. (Retroactive claims will continue to be made throughout the next 10 years, but with a reduction in the backlog,

amounts paid are likely to be smaller.) The lower COLA expected in December 2005—2.3 percent, compared with 2.7 percent in December 2004—also will slow the rate of benefit increases. CBO estimates that growth in DI will taper off to about 5.3 percent by 2015. By that time, the last of the baby boomers will have entered the age category in which disabilities are more likely to occur. Another factor contributing to much of the projected growth in Disability Insurance is the ongoing rise in Social Security's "normal retirement age"—from 65 to 66 and eventually to 67. That increase delays the reclassification of disabled workers as retired workers, and, as a result, older disabled individuals receive benefits under DI for a longer time before making the transition to OASI.

Other Income-Security Programs

In contrast to the rapid increases in outlays for Social Security, Medicare, and Medicaid, spending for other income-security programs will grow modestly at an average annual rate of 1.8 percent, CBO estimates. (Those programs include unemployment compensation, Supplemental Security Income, the refundable portion of certain tax credits, and Food Stamps.) As a result, those programs will make up a declining share of GDP—falling from about 1.7 percent in 2004 to 1.2 percent by 2015. Some of the drop over time is the result of provisions in law that affect the child tax credit, which is scheduled to expire in 2010. (The amount of the child tax credit that exceeds an individual's tax liability is treated as an outlay in the budget.) Moreover, some major benefit programs (for example, Temporary Assistance for Needy Families, or TANF) are capped by law and thus do not adjust according to increases in inflation or for changing case-loads. Still other programs, such as the refundable portion of the earned income tax credit (EITC), are projected to remain at roughly the same nominal amount over the next 10 years, though they are not capped. Consequently, as the economy expands, spending on those programs will drop relative to GDP.

Unemployment Compensation. Following the expiration of a temporary increase in the availability of unemployment benefits in 2004, and with the improving labor market, CBO expects that outlays for unemployment compensation in 2005 will be significantly lower than in recent years. Spending on unemployment compensation will fall to \$33 billion this year, CBO estimates, dropping from \$55 billion in 2003 and \$43 billion in 2004. CBO projects that benefits will gradually rise thereafter as a re-

5. The cost-of-living adjustment for calendar year 2005 is 2.3 percent. CBO estimates that those adjustments, which are pegged to the consumer price index, will be 2.0 percent in 2006 and 2.2 percent in 2007 and thereafter.

6. The oldest members of the baby-boom generation—those born in 1946—will turn 62 in 2008 and thus will qualify for reduced OASI benefits beginning that year. The age at which those individuals can receive full Social Security benefits (the "normal retirement age") is 66.

sult of increases in the amount of average benefits and growth in the labor force.

Supplemental Security Income. Outlays for the Supplemental Security Income program, which provides cash benefits to low-income people with disabilities, reached nearly \$34 billion in 2004. SSI spending is projected to increase at an average rate of 3.0 percent annually during the 2006-2015 period, though spending in a given year can fluctuate according to the number of payments made in that year. The program's growth is driven mainly by cost-of-living adjustments and a rising caseload.

Earned Income and Child Tax Credits. Taxpayers who earn wages below an established maximum, and those with dependent children, are eligible for federal tax credits. While a portion of those credits reduces filers' overall tax liability, the portion that exceeds that tax liability may be refunded to them in the form of a cash payment and thus is categorized as an outlay in the federal budget. The refundable portions of the earned income and child tax credits totaled \$42 billion in 2004. About \$33 billion of that amount represented the refundable portion of the earned income tax credit, while \$9 billion was attributable to the child tax credit. CBO estimates that much of the recent growth in participation in those programs will persist and that outlays for the credits will total \$48 billion in 2005. Under the Working Families Tax Relief Act of 2004, the child tax credit was increased to \$1,000 for calendar years 2005 through 2009 (matching the amount of the credit in 2004 and 2010). As a result, CBO expects that outlays for the two credits will remain steady at about \$48 billion until fiscal year 2012. By then, the child tax credit will be virtually eliminated under current law, and scheduled higher taxes will reduce the refundable portion of the EITC. Consequently, outlays for those credits will drop to about \$33 billion annually.

Food Stamps. CBO anticipates that outlays for the Food Stamp program will rise by 12 percent—to \$32 billion—in 2005 following a similar jump in 2004. In recent years, participation in the Food Stamp program has increased much faster than expected. CBO projects that participation in the program will continue at a higher level throughout the coming years and that spending for the program will remain well above its prerecession range of \$18 billion to \$19 billion per year.

Family Support Services. The federal government provides grants to states to help fund services to families. Outlays for those family support services—Temporary Assistance for Needy Families, child support enforcement, and other child care entitlements—totaled \$25 billion in 2004 and are estimated to remain at about the same level in 2005. Because the largest of those programs—TANF—is capped, spending in this category is expected to stay fairly flat throughout the next 10 years. Authorization for TANF originally was scheduled to expire at the end of 2002, but the program was extended at various points in the past two years and now is authorized through March 31, 2005. As required by the Deficit Control Act, CBO assumes that funding for TANF will continue at its most recently authorized level of nearly \$17 billion per year.

Child Nutrition and Foster Care. Spending for both child nutrition and for foster care and adoption assistance (neither of which is capped) is projected to rise by about 4 percent a year through 2015. In 2004, outlays for child nutrition programs were \$12 billion. They are expected to rise to \$13 billion in 2005. Spending for foster care and adoption assistance totaled a little over \$6 billion in 2004 and is estimated to be about \$7 billion in 2005.

Other Federal Retirement and Disability Programs Benefits for federal retirees—both civilian and military—totaled \$135 billion in 2004 and are estimated to reach \$145 billion in 2005. Between 2006 and 2015, funding for those programs is projected to grow steadily at about 3.3 percent per year and to remain at roughly 1 percent of GDP.

In 2004, the federal government funded nearly \$60 billion in annuities and survivors' benefits through its civilian retirement program, along with several smaller retirement programs for employees of various government agencies. Those payments are expected to grow to more than \$96 billion by 2015. The increase is fed by growth in the number of beneficiaries, cost-of-living adjustments, and rising federal salaries (which, in turn, boost future benefit levels). One factor that restrains growth somewhat is the gradual replacement of the Civil Service Retirement System (CSRS) with the smaller defined ben-

efit provided under the Federal Employees' Retirement System (FERS).⁷

In addition, the government offers benefits to retired military personnel and veterans. Annuities paid to retired military personnel reached \$37 billion in 2004. They are estimated to total \$39 billion in 2005 and are expected to rise to \$53 billion by 2015—an increase of about 3.2 percent a year. Mandatory spending for veterans' benefits—including disability compensation, pensions, and dependency and indemnity compensation to surviving spouses and children—totaled \$31 billion in 2004 and is projected to climb to \$38 billion by 2015, mainly because of cost-of-living adjustments and caseload increases.

Other Mandatory Spending

After an initial increase in 2005, other mandatory spending is expected to stay between \$61 billion and \$65 billion a year through 2015. Spending for farm price and income supports administered through the Commodity Credit Corporation (CCC) is projected to jump from \$9 billion in 2004 to \$22 billion in 2005. Because of near-record-high crop prices in 2004, the CCC paid out relatively little in federal subsidies. However, with a rapid drop in crop prices evident for 2005, CBO estimates that federal spending will increase significantly before returning to levels of \$13 billion to \$15 billion annually.

By contrast, outlays for the TRICARE For Life program—which provides health care benefits to retirees of the uniformed services who are eligible for Medicare (and to their dependents and surviving spouses)—are expected to grow rapidly each year, rising from \$6 billion in 2005 to \$13 billion by 2015. (At about 8 percent, the program's rate of growth parallels that of other medical expenditures.) Other mandatory spending is not expected to change significantly. For example, CBO estimates that, from 2006 to 2015, the subsidy and administrative costs of student loan programs will range from \$6 billion to \$8 billion a year.⁸

Offsetting Receipts

Offsetting receipts are payments from the public or from intragovernmental transactions that, for budgetary pur-

poses, the federal government characterizes and records as negative spending. In other words, those payments offset mandatory spending. Examples of such receipts include beneficiaries' premium payments for Medicare, federal agencies' contributions to retirement funds, and the government's receipts for the harvesting of timber and extraction of minerals on federal lands. The collection of offsetting receipts reduces total mandatory spending by between 8 percent and 10 percent each year.

Medicare Premiums and Related Receipts. Over the 10-year projection period, premiums for the Medicare program make up the largest component of offsetting receipts (see Table 3-4). In 2004, those payments totaled \$32 billion and offset Medicare spending by about 11 percent. By 2015, when such premiums and other payments to Medicare are projected to reach \$130 billion, they will reduce the program's overall costs by about 17 percent. Most of the increase over the coming 10 years is attributable to the prescription drug premiums and other collections provided under the new Medicare Part D.

Only a small portion of Medicare premiums—about 5 percent—are collected under Part A, the Hospital Insurance program. That proportion will fall to 3 percent by 2015 as premiums collected under Part D become a more significant source of receipts.

The majority of Medicare premiums are paid by the 39 million people enrolled in Supplementary Medicare Insurance (Medicare Part B), which covers physicians' and outpatient hospital services. By law, those premiums are set to cover one-quarter of that program's costs. In 2005, the average monthly premium is \$78; it is expected to grow to \$125 by 2015. Beginning in 2007, beneficiaries with relatively high incomes will be charged higher premiums. By 2015, CBO estimates, about 6 percent of beneficiaries will have annual incomes that are subject to those higher premiums, which will be as high as \$365 a month. Total Part B premiums are projected to rise from \$36 billion in 2005 to about \$80 billion in 2015.

7. Beginning in 1984, all newly hired federal civilian employees were enrolled in the FERS program. Although benefits under FERS by itself are lower than under CSRS, people enrolled in FERS are covered by Social Security and have contributions to the Thrift Savings Plan matched in part by their employing agencies.

8. The costs that are included in the federal budget for student loans are the present value of the net costs associated with the \$765 billion in direct and guaranteed loans expected over the 10-year projection period. Under the Credit Reform Act, only the subsidy costs of the loans are treated as outlays. Those outlays are estimated as the future costs in today's dollars for interest subsidies, default costs, and other expected expenses over the life of the loans.

Table 3-4.**CBO's Baseline Projections of Offsetting Receipts**

(Billions of dollars)

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006- 2010	Total, 2006- 2015
Medicare ^a	-32	-38	-55	-64	-69	-75	-82	-90	-98	-107	-118	-130	-346	-890
Employers' Share of Employees' Retirement														
Social Security	-11	-11	-12	-12	-13	-14	-15	-16	-17	-18	-19	-21	-67	-159
Military retirement	-14	-16	-16	-15	-16	-16	-17	-17	-18	-18	-18	-18	-80	-169
Civil service retirement and other	-20	-19	-20	-21	-22	-23	-24	-25	-26	-27	-28	-29	-110	-244
Subtotal	-45	-47	-48	-49	-51	-53	-56	-59	-61	-63	-66	-68	-257	-573
TRICARE For Life	-8	-10	-11	-12	-12	-13	-14	-15	-16	-17	-18	-19	-62	-145
Electromagnetic Spectrum Auctions	0	0	0	-8	-8	0	0	0	0	0	0	0	-15	-15
Energy-Related Receipts ^b	-6	-8	-8	-8	-8	-8	-8	-9	-9	-10	-10	-10	-41	-88
Natural-Resources-Related Receipts ^c	-5	-5	-5	-4	-4	-4	-4	-4	-4	-4	-4	-4	-22	-43
Other ^d	-12	-14	-14	-14	-14	-14	-15	-15	-15	-15	-16	-13	-70	-145
Total	-109	-122	-140	-159	-167	-168	-179	-191	-203	-217	-231	-244	-813	-1,899

Source: Congressional Budget Office.

- a. Includes Medicare premiums and amounts withheld from payments to states' Medicaid programs and transferred to the Part D account in the Supplementary Medical Insurance Trust Fund.
- b. Includes proceeds from the sale of electricity, various fees, and Outer Continental Shelf receipts.
- c. Includes timber and mineral receipts and various fees.
- d. Includes asset sales.

Beginning in 2006, premium payments for Medicare Part D will total \$9 billion. CBO estimates that those payments will cover about one-sixth of the program's costs. Part D collections are expected to grow steadily—by about 9 percent each year—after the new prescription drug benefit is underway, rising to \$29 billion in 2015.

With the introduction of Medicare Part D, some of the costs of providing prescription drug coverage to low-income Medicare enrollees will shift from the Medicaid program (which the states and the federal government both fund) to Medicare. Current law requires a portion of the resulting savings to be withheld from federal payments to state Medicaid programs and credited to the Medicare Part B trust fund. CBO projects that those transfers will grow from \$6 billion in 2006 to \$18 billion in 2015.

Other Offsetting Receipts. In 2004, intragovernmental transfers from federal agencies to employee retirement plans made up the largest component of offsetting receipts. Those payments will total about \$47 billion in 2005, constituting about 38 percent of total offsetting receipts that year. Those intragovernmental transfers will continue to rise, totaling a projected \$68 billion in 2015. Agencies' retirement contributions are primarily paid to the trust funds for Social Security, military retirement, and civil service retirement. They are charged against the agencies' budgets in the same way that other elements of their employees' compensation are: the budget treats them as outlays of the employing agency and records the deposits in the retirement funds as offsetting receipts. The transfers net to zero in budgetary totals, leaving only the funds' disbursements—for retirement benefits and administrative costs—reflected as outlays.

As they do with their retirement plans, the Department of Defense and certain other agencies make intragovernmental transfers to the Uniformed Services Medicare-Eligible Retiree Health Care Fund under the TRICARE For Life program. Its receipts are expected to almost double, rising from about \$10 billion in 2005 to nearly \$19 billion in 2015.

The auction of rights to use portions of the electromagnetic spectrum constitutes another source of offsetting receipts. Such auctions are expected to continue until the Federal Communications Commission's (FCC's) authority expires at the end of 2007. CBO assumes that the FCC will auction at least 90 megahertz of spectrum for advanced wireless services sometime in 2006 and 2007. Those auctions will bring in about \$15 billion through 2015, with the receipts being tallied in 2007 and 2008.

Other sources of proprietary receipts include royalties from and charges for oil and natural-gas production on federal lands; sales from federal hydroelectric facilities; sales arising from the harvesting of timber and extraction of minerals on federal lands; and various fees levied on users of public property and services. Energy-related receipts are expected to come to between \$8 billion and \$10 billion per year, while those dealing with natural resources will bring in about half as much, CBO estimates. A variety of other receipts are expected to average about \$14 billion annually through 2015.

What Drives the Growth in Mandatory Spending?

Mandatory spending has a history of rapid growth. For example, over the past 10 years, mandatory spending (excluding offsetting receipts) grew at a rate of 5.5 percent per year, which outpaced nominal growth in the economy. CBO expects that trend to continue well into the future, with growth between 2005 and 2015 reaching levels slightly above the recent average. Overall, CBO estimates that, by 2015, spending on mandatory programs will exceed the amount projected for 2005 by \$1.1 trillion. The bulk of that increase—75 percent—is attributable to rising per-beneficiary costs. Expanding caseloads will account for about one-fourth of the increase between 2006 and 2015 (see Table 3-5).

Increases in Spending per Recipient. CBO anticipates that most mandatory programs will continue to see increases in per-beneficiary costs. Such spending is frequently required by factors set in law (COLAs and other automatic adjustments, for instance). Other contributing

factors include rising wages (which are used as a basis for determining benefit levels in several programs); increases in the intensity of benefit utilization; the addition of more-costly medical procedures; and the expansion of benefits. CBO estimates that, by 2015, those increases will boost spending by \$830 billion—a 58 percent jump. Thus, those factors account for average annual growth of about 4.7 percent in mandatory spending—more than twice the projected rise in the consumer price index. Just over 60 percent of such increases—about \$500 billion—will be attributable to funding for Medicare and Medicaid (not accounting for the offsetting receipts that reduce the net cost of those programs). A significant portion of that increase can be ascribed to the addition of the outpatient prescription drug program, Medicare Part D.

Increases in average benefits for Social Security account for another \$251 billion in rising per-beneficiary costs. Average benefits for Social Security recipients (and for most federal retirees) grow faster than the increase provided by COLAs alone because initial awards to new beneficiaries are indexed to growth in wages, and wage growth typically exceeds inflation.

Increases in Caseload. About one-quarter of the growth in mandatory spending over the 2006-2015 period can be attributed to the rising ranks of beneficiaries. Even if average benefits did not rise, adding beneficiaries to the rolls under current eligibility rules would increase spending by \$17 billion in 2006 and by \$288 billion by 2015, CBO projects, relative to outlays in 2005. That growth amounts to an average of about 2 percent per year. Just over half of the increase in costs from expanding caseloads will occur in the Medicare and Medicaid programs. About 40 percent of the growth in caseloads over the next 10 years will take place in Social Security. CBO estimates that the annual increases in the number of OASI beneficiaries will be about 1 percent at the beginning of the period and then will escalate rapidly, reaching almost 3 percent by 2015.

Shifts in Payment Dates. Outlays for mandatory programs also depend on whether the first day of the fiscal year, October 1, falls on a weekday or weekend. If it falls on a weekend, some benefit payments will be made at the end of September—which increases spending for the preceding year and decreases spending for the forthcoming year. Because SSI, veterans' compensation and pension programs, and Medicare payments to health maintenance

Table 3-5.**Sources of Growth in Mandatory Spending**

(Billions of dollars)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Estimated Spending for Base Year 2005	1,439	1,439	1,439	1,439	1,439	1,439	1,439	1,439	1,439	1,439
Sources of Growth										
Medicare and Medicaid										
Establishment of Medicare Part D ^a	45	73	83	91	100	110	122	136	153	172
Other increases in spending per recipient	14	34	57	88	122	160	199	239	283	331
Increases in caseload	8	18	29	41	52	66	84	104	126	149
Social Security										
Increases in spending per recipient	16	33	52	73	96	121	149	180	214	251
Increases in caseload	7	14	23	34	46	59	73	88	104	120
Income security, federal retirement, disability, and social services ^b										
Increases in spending per recipient	8	15	24	33	41	51	45	56	66	76
Increases in caseload	2	6	8	10	12	13	15	16	18	19
Shifts in payment dates ^c	-8	-15	-9	-9	-9	3	-21	-9	-9	-9
Other effects	-10	-9	-10	-10	-8	-6	-6	-4	-3	-2
Total	82	169	257	349	453	576	660	806	951	1,107
Projected Spending	1,521	1,608	1,696	1,788	1,892	2,015	2,099	2,245	2,390	2,546
Memorandum:										
Total Increases in Spending per Recipient	83	155	216	283	359	441	515	611	715	830
Total Increases in Caseload	17	39	60	85	111	139	172	209	248	288

Source: Congressional Budget Office.

Note: Amounts do not include the effects of offsetting collections.

- Gross Part D spending is substantially larger than the effect on the federal budget of establishing the Medicare prescription drug benefit because gross Part D spending includes some costs that, under prior law, would have been incurred by Medicaid and other federal health programs. It does not, however, include offsetting receipts of the Medicare program from new premiums and payments by states.
- This category includes unemployment compensation, earned income and child tax credits, military and civilian retirement, veterans' benefits, child nutrition, Food Stamps, and foster care.
- Represents baseline differences attributable to assumptions about the number of benefit checks that will be issued in a fiscal year. Normally, benefit payments are made once a month. However, Medicare will pay 13 months of benefits in 2005 and 2011 and 11 in 2006 and 2012. Supplemental Security Income and veterans' benefits will be paid 13 times in 2005 and 2011 and 11 times in 2007 and 2012.

organizations all are affected by such calendar shifts, those programs may send out 11, 12, or 13 monthly checks in a fiscal year. Irregular numbers of benefit payments will affect mandatory spending in 2005, 2006, 2007, 2011, and 2012. Those effects reduce outlays in most later years relative to those in 2005, in large part because 2005 is a 13-payment year.

Other changes to mandatory programs will reduce outlays over the 2006-2015 period. Those changes are

largely attributable to spending by the Commodity Credit Corporation, which CBO projects will decline after this year. Also, CBO has recorded outlays of \$7 billion in 2005 to adjust for revised estimates of the costs of credit programs; such costs are not included in future years.

Legislation Assumed in the Baseline

CBO's projections for mandatory spending follow the general baseline concept of estimating future budget au-

thority and outlays in accordance with current law. However, in the case of certain mandatory programs with outlays of more than \$50 million in the current year, the Deficit Control Act directs CBO to assume that the programs will be extended when their authorization expires.⁹

The Food Stamp program, Temporary Assistance for Needy Families, the agricultural price and income-support programs of the Commodity Credit Corporation, rehabilitation services and disability research, and the State Children's Health Insurance Program are examples of programs whose current authorization is set to expire but in the baseline is assumed to continue. The Deficit Control Act also directs CBO to assume that a cost-of-living adjustment for veterans' compensation is granted each year. The assumption that expiring programs will continue accounts for nearly \$6 billion in outlays in 2005. As authorization for various programs expires throughout the next 10 years, that figure climbs to \$87 billion by 2015 (see Table 3-6).

Discretionary Spending

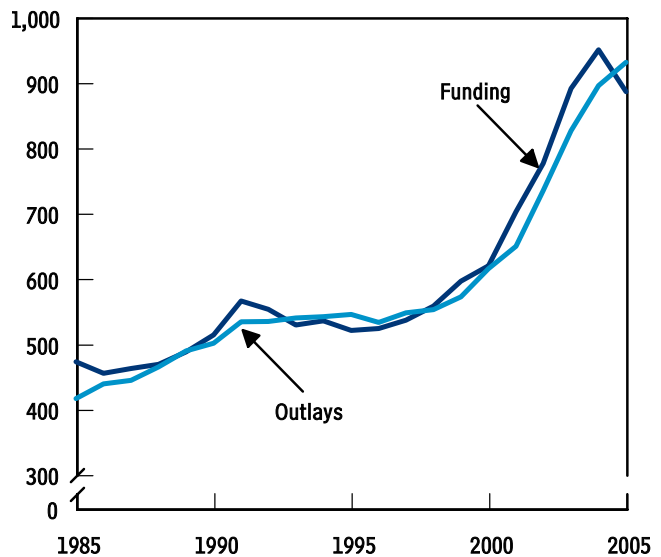
Each year, the Congress starts the appropriation process anew. The annual appropriation acts that it passes provide new budget authority (authority to enter into financial obligations) for discretionary programs and activities. That authority translates into outlays once the money is actually spent. Although some funds (for example, those designated for employees' salaries) are spent quickly, others (for example, those intended for major construction projects) are disbursed over several years. In any given year, discretionary outlays include spending from both new budget authority and from amounts previously appropriated.

9. Section 257 of the Deficit Control Act stipulates that programs with current-year outlays of \$50 million or more that were established prior to enactment of the Balanced Budget Act of 1997 are assumed in the baseline to continue but that the treatment of programs established after the 1997 law will be decided on a case-by-case basis, in consultation with the House and Senate Budget Committees. For example, the Budget Committees decided not to continue the recently enacted tobacco-buyout payments, which have been authorized through fiscal year 2014 and were estimated to cost about \$1 billion annually.

Figure 3-2.

Discretionary Funding and Outlays, 1985 to 2005

(Billions of dollars)



Source: Congressional Budget Office.

Note: Discretionary funding includes both budget authority and obligation limitations. (Spending from the Highway Trust Fund and the Airport and Airway Trust Fund is subject to such limitations. Budget authority for those programs is provided in authorizing legislation and is not considered discretionary.)

Recent Trends in Discretionary Funding and Outlays

In the mid-1980s, discretionary outlays accounted for 10.0 percent of GDP, but by 1999 they had fallen to 6.3 percent (see Table 3-7 on page 69). With the advent of budget surpluses in the late 1990s, funding for discretionary programs began moving upward again, thereby reversing the decline in outlays as a share of the economy (see Figure 3-2). The events of September 11, 2001, accelerated that trend, with discretionary outlays jumping to 7.1 percent of GDP (\$734 billion) in 2002 and 7.6 percent (\$825 billion) in 2003.

Under baseline assumptions, total discretionary outlays as a share of GDP drop slightly—from 7.7 percent (\$895 billion) in 2004 to 7.6 percent (\$930 billion) in 2005. However, anticipated additional funding for activities in Iraq and Afghanistan will most likely add about \$30 billion to outlays this year. Assuming such funding is enacted, total discretionary outlays would account for about

7.9 percent of GDP—the highest level since 1993—and would have a growth rate in 2005 of 7.3 percent.

Trends in overall discretionary spending have generally been greatly influenced by spending on defense. During the late 1980s and the 1990s, such outlays declined sharply as a share of the economy, sliding from a peak of 6.2 percent in 1986 to a low of 3.0 percent between 1999 and 2001. In 2002, those outlays rose to 3.4 percent of GDP and then continued to climb, reaching 3.7 percent in 2003 and 3.9 percent in 2004. Without additional funding for Iraq and Afghanistan, CBO estimates that defense outlays would account for 3.8 percent of GDP in 2005. Additional funding could boost defense outlays by about 8.9 percent over the 2004 level, growing to about 4.0 percent of GDP. Excluding supplemental funding appropriated in 2004 (mostly for activities in Iraq and Afghanistan) and in 2005 (mostly for disaster relief related to hurricane damage), discretionary budget authority for defense programs grew from \$394 billion in 2004 to \$420 billion in 2005, a 6.7 percent increase (see Table 3-8 on page 70).

Nondefense discretionary programs encompass such activities as housing assistance, transportation, maintenance of national parks, and foreign aid. Spending for such programs has remained relatively constant as a share of GDP since the mid-1980s (generally hovering between 3.2 percent and 3.9 percent of GDP), although it has grown steadily in nominal dollar terms. Such spending is estimated to total 3.8 percent of GDP in 2005. The growth rate of nondefense discretionary outlays slowed significantly in the past two years, dropping from 12.3 percent in 2002 to 4.9 percent in 2004. However, in 2005, CBO projects that growth rate to increase to 5.8 percent, partially as a result of outlays from previous appropriations. Nearly half of the \$466 billion in outlays projected for 2005 in the nondefense discretionary category stems from funding granted before this year. Also contributing to the increase in outlays for nondefense discretionary programs is spending for reconstruction activities in Iraq—such outlays are expected to rise from \$3 billion in 2004 to \$6 billion this year.

Excluding all supplemental funding in 2004 and 2005, appropriations for nondefense discretionary activities

have grown by 3.5 percent since last year. Spending on homeland security activities has been among the fastest-growing components of the nondefense discretionary category: excluding supplemental funding, budget authority for such programs jumped by nearly 15 percent in 2005, CBO estimates (see Table 3-8). Appropriations for other nondefense activities have risen by 2.6 percent over the previous year's levels. Areas of growth include Project BioShield (which received an advance appropriation of \$2.5 billion last year for fiscal year 2005), hospital and medical care for veterans, and programs to battle HIV/AIDS overseas.¹⁰ A large decrease in funding occurred for election reform programs. (Those programs were not funded in 2005, but about \$1 billion in previous funding remains to be spent.)

The distribution of the \$464 billion in funding for nondefense discretionary activities for 2005 (including \$45 billion in obligation limitations) is shown in Figure 3-3 on page 68. The education, training, employment, and social services category will constitute 17 percent of nondefense discretionary funding (\$80 billion) in 2005, CBO projects. That budget function includes all discretionary federal programs related to education and employment, as well as social services for children, families, the elderly, and the disabled. (Student loans, unemployment compensation, and a number of other programs are not included in these totals, because they are considered mandatory programs.) Funding for transportation programs (ground, air, and water)—which includes obligation limitations set in appropriation bills—will total \$71 billion and account for 15 percent of nondefense discretionary funding in 2005, CBO estimates. Health research and public health expenditures will reach \$54 billion—and make up 12 percent of nondefense discretionary funding—in 2005. According to CBO's calculations, at \$46 billion, the income-security category will claim 10 percent of nondefense discretionary funding, mostly for housing assistance and food and nutrition assistance programs. Those four categories together account for over half of all nondefense discretionary funding.

10. Project BioShield also received an advance appropriation of \$2.2 billion for 2009.

Table 3-6.

Costs for Mandatory Programs That CBO's Baseline Assumes Will Continue Beyond Their Current Expiration Dates

(Billions of dollars)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006- 2010	Total, 2006- 2015
Food Stamps													
Budget authority	n.a.	n.a.	n.a.	32.0	32.6	33.4	34.2	35.1	35.9	36.9	37.8	98.0	278.0
Outlays	n.a.	n.a.	n.a.	30.6	32.6	33.3	34.2	35.1	35.9	36.8	37.8	96.5	276.3
Temporary Assistance for Needy Families													
Budget authority	7.1	16.9	16.9	16.9	16.9	16.9	16.9	16.9	16.9	16.9	16.9	84.6	169.2
Outlays	5.2	15.2	17.2	17.2	16.9	16.9	16.9	16.9	16.9	16.9	16.9	83.5	168.2
Commodity Credit Corporation^a													
Budget authority	n.a.	n.a.	n.a.	n.a.	15.0	14.6	14.4	14.0	13.9	13.9	12.7	29.6	98.4
Outlays	n.a.	n.a.	n.a.	n.a.	15.0	14.6	14.4	14.0	13.9	13.9	12.7	29.6	98.4
Veterans' Compensation COLAs													
Budget authority	n.a.	0.6	1.1	1.7	2.4	3.0	3.9	4.0	4.9	5.6	6.2	8.7	33.3
Outlays	n.a.	0.5	1.0	1.7	2.3	2.9	3.9	3.9	4.9	5.5	6.2	8.5	32.9
Child Care Entitlement to States													
Budget authority	0.9	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	13.6	27.2
Outlays	0.6	2.2	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	12.9	26.5
State Children's Health Insurance Program													
Budget authority	n.a.	n.a.	n.a.	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	15.1	40.3
Outlays	n.a.	n.a.	n.a.	2.0	4.0	4.9	5.3	5.3	5.4	5.2	5.1	10.9	37.2
Rehabilitation Services and Disability Research													
Budget authority	n.a.	n.a.	2.8	2.8	2.9	3.0	3.0	3.1	3.2	3.2	3.3	11.5	27.2
Outlays	n.a.	n.a.	1.1	2.2	2.8	2.8	2.9	3.0	3.0	3.1	3.2	9.0	24.2
Ground Transportation Programs Not Subject to Annual Obligation Limitations													
Budget authority	0.2	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	3.2	6.4
Outlays	0.1	0.3	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	2.5	5.7
Federal Unemployment Benefits and Allowances													
Budget authority	n.a.	n.a.	n.a.	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	2.7	7.6
Outlays	n.a.	n.a.	n.a.	0.4	0.8	0.9	0.9	0.9	1.0	1.0	1.0	2.1	7.0

Continued

Table 3-6.**Continued**

(Billions of dollars)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006- 2010	Total, 2006- 2015
Child Nutrition ^b													
Budget authority	0	0	0	0	0	0.5	0.5	0.5	0.5	0.5	0.6	0.5	3.1
Outlays	0	0	0	0	0	0.4	0.5	0.5	0.5	0.5	0.6	0.4	3.0
Family Preservation and Support													
Budget authority	n.a.	n.a.	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	1.2	2.7
Outlays	n.a.	n.a.	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.9	2.4
Other Natural Resources													
Budget authority	0	0	0	0	0	0	0	0	0	0	0.3	0	0.3
Outlays	0	0	0	0	0	0	0	0	0	0	0.2	0	0.2
Ground Transportation Programs Controlled by Obligation Limitations ^c													
Budget authority	14.2	41.3	41.3	41.3	41.3	41.3	41.3	41.3	41.3	41.3	41.3	206.7	413.3
Outlays	0	0	0	0	0	0	0	0	0	0	0	0	0
Air Transportation Programs Controlled by Obligation Limitations													
Budget authority	0	0	0	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	11.1	29.6
Outlays	0	0	0	0	0	0	0	0	0	0	0	0	0
Total													
Budget authority	22.4	62.2	65.8	108.1	124.4	126.0	127.6	128.3	130.0	131.7	132.5	486.5	1,136.6
Outlays	5.8	18.2	22.5	57.6	78.1	80.5	82.6	83.4	85.1	86.6	87.3	256.9	681.8

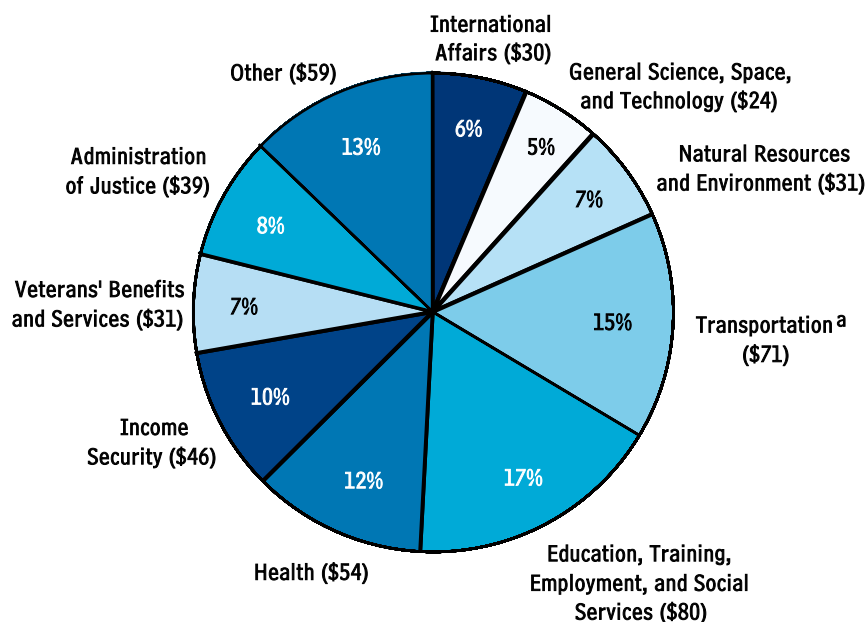
Source: Congressional Budget Office.

Notes: n.a. = not applicable; COLAs = cost-of-living adjustments.

- a. Agricultural commodity price and income supports under the Farm Security and Rural Investment Act of 2002 (FSRIA) generally expire after 2007. Although permanent price support authority under the Agricultural Adjustment Act of 1939 and the Agricultural Act of 1949 would then become effective, section 257(b)(2)(iii) of the Deficit Control Act says that the baseline must assume that the FSRIA provisions continue.
- b. Includes the Summer Food Service program and state administrative expenses.
- c. Authorizing legislation provides contract authority, which is counted as mandatory budget authority. However, because spending is subject to obligation limitations specified in annual appropriation acts, outlays are considered discretionary.

Figure 3-3.**Nondefense Discretionary Funding, by Budget Function, 2005**

(Billions of dollars)



Source: Congressional Budget Office.

a. Includes \$45 billion in obligation limitations.

Discretionary Spending for 2006 Through 2015

Under baseline assumptions, CBO projects that discretionary outlays will drop from \$930 billion in 2005 to \$914 billion in 2006, before steadily rising for the remainder of the 10-year projection period, reaching \$1.1 trillion in 2015. The initial drop-off can be attributed to a projected decline in defense spending in 2006 and 2007 as outlays for Iraq and Afghanistan taper off under the baseline assumption of no additional appropriations for those operations. In 2008, outlays for defense are projected to begin rising again; by 2015, such outlays would total \$529 billion.¹¹ CBO projects that, under baseline assumptions, nondefense discretionary outlays would continue rising steadily throughout the 2006-2015 period, growing from \$476 billion in 2006 to \$572 billion in 2015—an average rate of 2.1 percent per year.

Homeland Security. One type of spending that encompasses both defense and nondefense activities is homeland

security.¹² The Administration has identified the spending that it considers related to such activities, and, in its current baseline, CBO has adopted the Administration's classification.¹³ Net discretionary budget authority for homeland security is estimated to total about \$42 billion in 2005—\$11 billion for defense and \$31 billion for nondefense programs. CBO estimates that the resulting discretionary outlays for those needs will total \$37 billion this year (see Table 3-9 on page 71). In addition, roughly \$1 billion in net outlays for homeland security is classified as mandatory spending in 2005. Under its baseline

12. For a discussion of homeland security activities and funding, see Congressional Budget Office, *Federal Funding for Homeland Security*, Economic and Budget Issue Brief (April 30, 2004).

13. CBO received some preliminary information from the Administration regarding the classification of appropriations for 2005 for the Department of Homeland Security. For homeland security activities outside of the Department, CBO estimated homeland security spending for 2005 on the basis of the amounts designated for that activity in OMB's 2004 *Mid-Session Review*. Once the Administration releases its 2006 budget proposal in February 2005, CBO will revise its homeland security estimates to reflect the Administration's classification of those programs.

11. Most spending for defense programs is classified as discretionary; however, an additional \$2 billion a year in defense spending is classified as mandatory.

Table 3-7.**Defense and Nondefense Discretionary Outlays, 1985 to 2005**

	Defense Outlays			Nondefense Outlays			Total Discretionary Outlays		
	In Billions of Dollars	As a Percentage of GDP	Percentage Change from Previous Year	In Billions of Dollars	As a Percentage of GDP	Percentage Change from Previous Year	In Billions of Dollars	As a Percentage of GDP	Percentage Change from Previous Year
1985	253	6.1	11.0	163	3.9	7.5	416	10.0	9.6
1986	274	6.2	8.2	165	3.7	1.2	439	10.0	5.5
1987	283	6.1	3.2	162	3.5	-1.8	444	9.5	1.3
1988	291	5.8	3.0	174	3.5	7.3	464	9.3	4.6
1989	304	5.6	4.5	185	3.4	6.5	489	9.0	5.2
1990	300	5.2	-1.3	200	3.5	8.5	501	8.7	2.4
1991	320	5.4	6.5	214	3.6	6.6	533	9.0	6.5
1992	303	4.8	-5.3	231	3.7	8.2	534	8.6	0.1
1993	292	4.4	-3.4	247	3.8	6.8	539	8.2	1.0
1994	282	4.1	-3.5	259	3.7	4.9	541	7.8	0.4
1995	274	3.7	-3.1	271	3.7	4.7	545	7.4	0.6
1996	266	3.5	-2.8	267	3.5	-1.7	533	6.9	-2.2
1997	272	3.3	2.1	276	3.4	3.3	547	6.7	2.7
1998	270	3.1	-0.5	282	3.3	2.3	552	6.4	0.9
1999	275	3.0	1.9	297	3.2	5.2	572	6.3	3.6
2000	295	3.0	7.1	320	3.3	7.9	615	6.3	7.5
2001	306	3.0	3.8	343	3.4	7.3	649	6.5	5.6
2002	349	3.4	14.0	385	3.7	12.3	734	7.1	13.1
2003	405	3.7	16.0	420	3.9	9.1	825	7.6	12.4
2004	454	3.9	12.1	441	3.8	4.9	895	7.7	8.4
2005 ^a	464	3.8	2.2	466	3.8	5.8	930	7.6	4.0

Sources: Office of Management and Budget for 1985 through 2004 and Congressional Budget Office for 2005.

a. Estimated. Excludes the effect on outlays of additional funding for operations in Iraq and Afghanistan, which has not yet been enacted for 2005.

assumptions, CBO projects that discretionary outlays for homeland security will average about 0.3 percent of GDP and about 1.5 percent of total federal spending over the next 10 years.

Alternative Paths for Discretionary Spending. As specified in the Deficit Control Act, CBO inflates discretionary budget authority (using the factors set forth in law) from the level appropriated in the current year to provide a reference point for assessing policy changes. CBO's baseline assumes that total budget authority in 2005 is about \$840 billion and that obligation limitations total \$45 billion, the amounts appropriated to date; both grow with inflation thereafter. Under those assumptions, discretionary funding would grow at an annual rate of about

2.4 percent for most of the projection period. Because funding can and probably will differ from those assumptions, CBO presents alternative paths for discretionary spending to show the budgetary consequences of using different rates of growth (see Table 3-10 on page 72).

The first alternative path assumes that funding will grow at the average annual rate of nominal GDP after 2005 (4.9 percent a year, or twice as fast as the rate of growth assumed in the baseline). Under this scenario, total discretionary outlays would exceed the baseline figures by \$1.4 trillion over the projection period. Added debt-service costs would bring the cumulative increase in outlays to \$1.7 trillion.

Table 3-8.**Growth in Discretionary Budget Authority, 2004 to 2005**

(Billions of dollars)

	Actual 2004	Estimated 2005	Percentage Change
Budget Authority			
Defense	486	421	-13.3
Nondefense			
Homeland security ^a	27	31	14.3
Other nondefense	393	388	-1.4
Subtotal, nondefense	420	419	-0.3
Total	906	840	-7.3
Budget Authority Excluding Supplementals ^b			
Defense	394	420	6.7
Nondefense			
Homeland security ^a	27	31	14.7
Other nondefense	368	377	2.6
Subtotal, nondefense	395	409	3.5
Total Excluding Supplementals	789	829	5.1

Source: Congressional Budget Office.

- a. CBO received some preliminary information from the Administration regarding the classification of appropriations for 2005 for the Department of Homeland Security. For homeland security activities outside of the department, CBO estimated homeland security spending for 2005 on the basis of the amounts designated for such activity in OMB's 2004 *Mid-Session Review*. Once the Administration releases its 2006 budget proposal in February 2005, CBO will revise its homeland security estimates to reflect the Administration's actual classification of those programs. About \$9 billion of defense funding for 2004 and \$11 billion of funding for 2005 is also classified as homeland security; those funds are shown in the defense category.
- b. Supplemental appropriations in 2004 totaled \$117 billion. Funding, primarily for activities in Iraq and Afghanistan, was contained in two acts. The first, enacted in November 2003, provided \$87 billion. The second, the Department of Defense Appropriations Act, 2005, provided another \$28 billion for 2004 (including \$1.8 billion from reversing a rescission that had previously been enacted but not yet applied). In addition, \$2 billion in supplemental funding for hurricane relief was provided in September 2004. Supplemental funding of \$11.5 billion in 2005 has been provided for hurricane disaster assistance.

The second path assumes that discretionary resources are provided in 2005 and thereafter to continue activities in Iraq and Afghanistan and, more broadly, for the global war on terrorism. This policy alternative assumes an eventual slowdown of such activities and includes funding for domestic military operations for homeland security. Under that scenario, discretionary outlays over the 10-year period would total \$418 billion more than the baseline figures presented in this report, and debt-service costs would increase by \$172 billion.

The final path shows less spending; it assumes that most discretionary budget authority and obligation limitations are frozen throughout the projection period at the level provided in 2005. Total discretionary outlays for the 10-

year period would be \$1.1 trillion lower than those in the baseline scenario. Debt-service adjustments would reduce spending by another \$0.2 trillion.

Net Interest

In the next eight years, interest outlays will be one of the fastest growing components of the federal budget. CBO's baseline shows interest costs nearly doubling during this time, growing from \$160 billion in 2004 to \$314 billion in 2012; as a share of GDP, interest outlays are projected to total between 1.4 percent and 1.9 percent during that period (see Table 3-11 on page 74). By contrast, net interest as a share of the economy ranged from 2.0 percent

Table 3-9.**CBO's Baseline Projections of Discretionary Spending for Homeland Security**

(Billions of dollars)

	Actual													Total, 2006-	Total, 2006-
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2010	2015	
Budget Authority															
Defense	9	11	11	11	12	12	12	13	13	13	14	14	58	124	
Nondefense ^a															
Department of Homeland Security															
Border and transportation security	10	11	11	11	11	11	11	12	12	12	13	13	55	118	
Other activities	<u>9</u>	<u>11</u>	<u>8</u>	<u>9</u>	<u>9</u>	<u>11</u>	<u>9</u>	<u>9</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>46</u>	<u>95</u>	
Subtotal, Department of Homeland Security	19	21	19	20	20	22	21	21	22	22	23	23	101	213	
Other departments	<u>8</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>12</u>	<u>12</u>	<u>12</u>	<u>13</u>	<u>53</u>	<u>112</u>	
Subtotal, nondefense	27	31	29	30	30	33	32	33	33	34	35	36	154	326	
Total Budget Authority	36	42	40	41	42	45	44	45	46	47	49	50	212	449	
Outlays															
Defense	9	11	11	11	11	12	12	12	13	13	13	14	57	122	
Nondefense ^a															
Department of Homeland Security															
Border and transportation security	9	10	11	11	11	11	11	12	12	12	13	13	55	116	
Other activities	<u>5</u>	<u>7</u>	<u>9</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>48</u>	<u>97</u>	
Subtotal, Department of Homeland Security	15	17	19	20	21	21	21	21	22	22	23	23	102	214	
Other departments	<u>7</u>	<u>9</u>	<u>10</u>	<u>10</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>12</u>	<u>12</u>	<u>12</u>	<u>12</u>	<u>53</u>	<u>112</u>	
Subtotal, nondefense	21	26	29	31	31	31	32	33	33	34	35	36	155	325	
Total Outlays	30	37	40	42	43	43	44	45	46	47	48	49	212	448	
Memorandum:															
Mandatory Outlays for Homeland Security	1	*	*	*	*	*	*	*	*	*	*	2	1	2	

Source: Congressional Budget Office.

Notes: * = between -\$500 million and \$500 million.

CBO's classification of homeland security funding is based on designations established by the Administration. Those designations are not limited to the activities of the Department of Homeland Security. In fact, some activities of the department, such as disaster relief, are not included in the definition, whereas nondepartmental activities (such as some defense-related programs and some funding for the National Institutes of Health) fall within the Administration's definition of homeland security. About half of all spending considered to be for homeland security is for activities outside of the Department of Homeland Security.

CBO received some preliminary information from the Administration regarding the classification of appropriations for 2005 for the Department of Homeland Security. For homeland security activities outside of the department, CBO estimated homeland security spending for 2005 on the basis of the amounts designated for such activity in OMB's 2004 *Mid-Session Review*. Once the Administration releases its 2006 budget proposal in February 2005, CBO will revise its homeland security estimates to reflect the Administration's actual classification of those programs.

The amounts shown in this table reflect the net spending for homeland security activities. About \$4 billion to \$5 billion a year in spending is offset by fees and other receipts.

- a. Project BioShield, an initiative to expand the government's arsenal of counterbioterrorism agents, has received appropriations for 2005 and 2009. Budget authority for all other years is zero.

Table 3-10.**CBO's Projections of Discretionary Spending Under Alternative Paths**

(Billions of dollars)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006- 2010	Total, 2006- 2015
Baseline (Discretionary Resources Grow with Inflation After 2005)^a													
Budget Authority													
Defense	421	432	441	452	463	474	486	498	510	523	536	2,263	4,817
Nondefense	419	428	438	448	460	469	480	491	503	514	526	2,242	4,756
Total	840	859	879	900	923	943	966	989	1,013	1,038	1,063	4,505	9,573
Outlays													
Defense	464	438	435	447	457	468	484	488	504	516	529	2,245	4,765
Nondefense	466	476	485	493	502	511	523	534	546	559	572	2,468	5,202
Total	930	914	919	940	959	980	1,006	1,022	1,050	1,075	1,101	4,713	9,966
Discretionary Resources Grow at the Rate of Nominal GDP After 2005													
Budget Authority													
Defense	421	444	467	492	517	542	567	594	621	649	678	2,462	5,570
Nondefense	419	439	463	488	514	537	562	588	614	642	670	2,441	5,516
Total	840	883	931	980	1,031	1,078	1,129	1,181	1,235	1,291	1,348	4,903	11,087
Outlays													
Defense	464	446	455	481	504	529	558	576	606	634	663	2,415	5,452
Nondefense	466	483	505	528	552	577	604	632	660	690	721	2,645	5,951
Total	930	929	959	1,009	1,057	1,106	1,162	1,208	1,267	1,324	1,383	5,059	11,403
Appropriations Are Provided for Activities in Iraq and Afghanistan and for the Global War on Terrorism													
Budget Authority													
Defense	486	517	506	502	498	499	511	524	537	550	564	2,523	5,210
Nondefense	419	428	438	448	460	469	480	491	503	514	526	2,242	4,756
Total	905	944	944	950	958	968	991	1,015	1,040	1,065	1,091	4,765	9,966
Outlays													
Defense	494	508	510	512	502	498	509	514	531	543	557	2,530	5,183
Nondefense	466	476	485	493	502	511	523	534	546	559	572	2,468	5,202
Total	960	984	994	1,005	1,004	1,010	1,031	1,048	1,077	1,102	1,129	4,998	10,384
Continued													

of GDP to 3.3 percent each year between 1981 and 2001. As a share of total outlays, interest costs are projected to rise from 7.0 percent in 2004 to 9.7 percent in 2012.

The increase in interest payments is attributable to accumulating debt as well as the rising interest rates in CBO's economic forecast. Assuming that certain tax provisions expire as specified in current law, net interest costs begin

to decline after 2012 as deficits revert to surpluses under the baseline; by 2015, net interest costs are projected to total \$303 billion, or 1.5 percent of GDP—the same percentage as in 2005.

Interest costs in 2005 will total \$178 billion, CBO estimates, \$17 billion more than in 2004. Most of that increase is attributable to recent action by the Federal Reserve to raise short-term rates and to expected future in-

Table 3-10.**Continued**

(Billions of dollars)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006- 2010	Total, 2006- 2015
Discretionary Resources Are Frozen at the 2004 Level													
Budget Authority													
Defense	421	421	421	421	421	421	421	421	421	421	421	2,106	4,211
Nondefense	419	418	418	418	420	417	417	416	416	415	415	2,091	4,169
Total	840	839	839	839	841	838	838	837	837	836	836	4,196	8,381
Outlays													
Defense	464	430	418	420	420	420	423	416	420	420	420	2,108	4,205
Nondefense	466	470	470	468	466	463	462	462	461	461	460	2,336	4,643
Total	930	900	887	888	885	883	885	878	881	880	880	4,444	8,848
Memorandum:													
Obligation Limitations in CBO's													
September 2004 Baseline	45	46	47	48	49	49	50	51	52	53	54	239	500

Source: Congressional Budget Office.

Note: Discretionary resources include both budget authority and obligation limitations. Spending from the Highway Trust Fund and the Airport and Airway Trust Fund is subject to such limitations. Budget authority for those programs is provided in authorizing legislation and is not considered discretionary.

a. Using the inflators specified in the Deficit Control Act (the GDP deflator and the employment cost index for wages and salaries).

creases in those rates during the year. Increased borrowing requirements to finance recent deficits will also boost net interest outlays in 2005.

The federal government's interest payments depend primarily on the amount of outstanding debt held by the public and on interest rates. The Congress and the President can influence the former through legislation that governs spending and taxes and, thus, the extent of government borrowing. Interest rates are determined by market forces and the Federal Reserve's policies.

Interest outlays are also affected by the composition of debt held by the public. The average maturity of outstanding marketable debt has remained fairly constant since 1986, ranging from four years to six years. That stability, however, masks some changes in the types of securities issued by the Treasury Department. For example, in 2001, the Treasury stopped issuing 30-year bonds and introduced a four-week bill. As a result, the average maturity of outstanding debt has fallen from five and three-quarter years in December 2000 to about four and a half years in September 2004. Currently, Treasury bills with a

maturity of six months or less account for about 25 percent of all marketable debt (a similar proportion is assumed to continue throughout the 10-year projection period). Although such securities generally carry lower interest rates, they are riskier obligations for the Treasury than securities with longer-term maturities because their financing costs are subject to rapid fluctuations in interest rates.

The federal government has issued about \$3.1 trillion in securities to federal trust funds. Similar to the composition of debt held by the public, those securities consist of bills, notes, bonds, inflation-indexed securities, and zero-coupon bonds. However, the interest paid on those securities has no net budgetary impact because it is credited to accounts elsewhere in the budget. In 2005, trust funds will be credited with \$161 billion in interest, CBO estimates—mostly for the Social Security and Civil Service Retirement trust funds.

The \$6 billion in other interest that CBO anticipates the government will receive in 2005 represents the net of certain interest payments and interest collections. On bal-

Table 3-11.**CBO's Baseline Projections of Federal Interest Outlays**

(Billions of dollars)

	Actual 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total, 2006- 2010	Total, 2006- 2015
Interest on Public Debt (Gross interest) ^a	322	347	392	446	489	523	556	585	609	629	650	668	2,405	5,546
Interest Received by Trust Funds														
Social Security	-86	-91	-96	-106	-117	-129	-142	-156	-171	-186	-203	-219	-589	-1,524
Other trust funds ^b	-68	-70	-72	-77	-82	-86	-90	-94	-98	-103	-107	-113	-407	-921
Subtotal	-154	-161	-168	-183	-198	-215	-232	-250	-269	-289	-310	-332	-996	-2,446
Other Interest ^c	-4	-6	-10	-13	-15	-18	-20	-23	-25	-28	-31	-33	-76	-215
Other Investment Income ^d	-3	-2	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-5	-10
Total (Net interest)	160	178	213	249	274	289	303	311	314	311	308	303	1,328	2,875

Source: Congressional Budget Office.

- a. Excludes interest costs of debt issued by agencies other than the Treasury (primarily the Tennessee Valley Authority).
- b. Mainly the Civil Service Retirement, Military Retirement, Medicare, and Unemployment Insurance trust funds.
- c. Primarily interest on loans to the public.
- d. Earnings on private investments by the National Railroad Retirement Investment Trust.

ance, the government earns more of such interest than it pays out. Among its interest expenses are payments for interest on tax refunds that are delayed for more than 45 days after the filing date. On the collections side, interest received from the financing accounts of credit programs, such as direct student loans, is one of the larger categories. Although other interest appears to increase rapidly

through the projection period, almost all of that growth is attributable to interest on the accrued balances credited to the TRICARE For Life program. (Because those are considered intragovernmental payments, the net effect on interest outlays is zero.) In addition, CBO estimates that earnings from the Railroad Retirement Investment Trust in 2005 will total about \$2 billion.